



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Rob Sand
Auditor of State

NEWS RELEASE

FOR RELEASE

April 1, 2019

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Farnhamville, Iowa for the period July 1, 2017 through June 30, 2018. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand recommended the City review its internal controls to obtain the maximum internal control possible. The City should also establish procedures to ensure bank and utility reconciliations are completed monthly and are independently reviewed. In addition, the City should comply with the USDA loan conditions by establishing the proper amount of funds in a reserve.

A copy of the agreed-upon procedures report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

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CITY OF FARNHAMVILLE
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2017 THROUGH JUNE 30, 2018

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City of Farnhamville

Officials

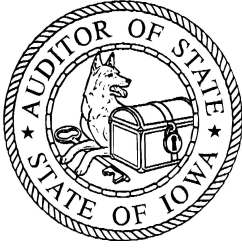
(Before January 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Frank Morgan	Mayor	Jan 2018
Barbara Gregg	Council Member	Jan 2018
Jeff Kicklighter	Council Member	Jan 2018
Troy Jepsen (Appointed)	Council Member	Nov 2017
Clint VanKley	Council Member	(Resigned Oct 2016)
Alex Farley	Council Member	Jan 2020
Rita Kail	Council Member	Jan 2020
Emily Bendickson	City Clerk	Indefinite
James Kramer	Attorney	Indefinite

(After January 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Rita Kail	Mayor	Jan 2022
Shawna Carter (Appointed)	Council Member	Nov 2019
Alex Farley	Council Member	Jan 2020
Sherry Barber	Council Member	Jan 2022
Troy Jepsen	Council Member	Jan 2022
Joe Robertson	Council Member	Jan 2022
Emily Bendickson	City Clerk	Indefinite
James Kramer	Attorney	Indefinite

City of Farnhamville



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Auditor of State's Independent Report on Applying Agreed-Upon Procedures

To the Honorable Mayor and Members of the City Council:

We performed the procedures below, which were established at Iowa Code Chapter 11.6 to provide oversight of Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Farnhamville for the period July 1, 2017 through June 30, 2018, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Farnhamville's management, which agreed to the performance of the procedures performed, is responsible for compliance with these requirements and for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either, for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2018 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.

9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
11. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
12. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
13. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
14. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on specific accounting records and related information of the City, including compliance with specific Code of Iowa requirements. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is to report, in accordance with Chapter 11.6 of the Code of Iowa, certain agreed-upon procedures and the resulting recommendations pertaining to selected accounting records and related information of the City, including the City's compliance with certain Code of Iowa requirements. This report is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Farnhamville during the course of our agreed-upon procedures engagement. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



ROB SAND
Auditor of State

February 27, 2019

Detailed Recommendations

City of Farnhamville

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

(A) Segregation of Duties – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City’s financial statements. Generally, one individual has control over each of the following areas for the City:

- (1) Accounting system – performing all general accounting functions, including journal entries, and having custody of assets.
- (2) Cash – handling, reconciling and recording.
- (3) Investments – recordkeeping, investing, custody of investments and reconciling earnings.
- (4) Long-term debt – recordkeeping, compliance and debt payment processing.
- (5) Receipts – opening mail, collecting, depositing, recording and reconciling.
- (6) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
- (7) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (8) Payroll – entering rates into the system, recordkeeping, preparing, signing and distributing.
- (9) Journal entries – preparing, recording and reviewing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations and journal entries should be documented by the signature or initials of the reviewer and the date of the review.

(B) Bank Reconciliations – The cash and investment balances in the City’s general ledger were not reconciled to bank and investment account balances throughout the year. For the two months tested, the City’s general ledger reconciled to bank and investment account balances.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly and variances, if any, are reviewed and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

(C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and delinquent account listings were not reviewed by the City Council.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations, document their review and monitor delinquent accounts. Proper documentation of utility activity should be retained.

City of Farnhamville

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

- (D) USDA Loan – The USDA loan letter of conditions requires the City to build a water reserve account which, at June 30, 2018 should have a balance of \$44,688. However, the cash balance in the City’s Water Fund is only \$1,761 on June 30, 2018 and no other water accounts exist.

Recommendation – The City should comply with the provisions in the USDA Loan letter of conditions and establish a reserve with the required balance.

- (E) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report (AFR) contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures...” Certain disbursements did not agree with the City’s records and the City’s outstanding debt was reported incorrectly in the AFR.

Recommendation – The City should ensure the City’s financial activity, including outstanding debt, is properly reported in the AFR.

- (F) Monthly City Clerk’s Report – A monthly City Clerk’s report, including a comparison of actual disbursements to budgeted disbursements by function, was prepared throughout the year. However, there was no evidence the reports were provided of the City Council.

Recommendation – The monthly City Clerk’s reports should be provided to the City Council. The City Council should review and approve the City Clerk’s monthly reports and document the review with the signature or initials of the reviewer and the date of the review.

- (G) Accounting Policies and Procedures Manual – The City does not have written accounting policies and procedures for personnel policies, including policies for regular evaluations of employee performance and travel.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement personnel.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

- (H) Transfers – Transfers between funds were not all approved by the City Council.

Recommendation – The City Council should review and approve all transfers between funds.

- (I) Water and Sewer Utility – During fiscal year 2018, the City transferred \$41,627 from the General Fund into the Enterprise, Water Fund and the Enterprise, Sewer Fund for cash flow purposes. Both of these funds are not generating enough receipts to cover operating and non-operating costs.

Recommendation – The City should investigate alternatives to bring these two funds into a self-sufficient position, including considering the need to increase user rates.

City of Farnhamville

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

- (J) Certified Budget – Disbursements during the year ended June 30, 2018 exceeded the amount budgeted in the culture and recreation function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (K) Business Transactions – Business Transactions between the City and City officials or employees which may represent conflicts of interest are detailed as follows.

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Troy Jepsen, City Council Member, Wife owns Jepsen Services	Mowing and trimming	\$ 2,795

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the above transactions may represent a conflict of interest since total transactions were more than \$2,500 during the fiscal year and the transactions were not competitively bid.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

City of Farnhamville

Staff

This engagement was performed by:

Brian R. Brustkern, CPA, Manager
Jenna M. Paysen, Senior Auditor
Molly N. Kalkwarf, Staff Auditor



Marlys K. Gaston, CPA
Deputy Auditor of State